



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

JUN - 9 2006

OFFICE OF  
WATER

Mr. A. Stanley Meiburg  
EFAB Executive Director  
61 Forsyth Street, SW  
Atlanta, Georgia 30303

Dear Mr. Meiburg:

Thank you for providing the Environmental Protection Agency with the Environmental Financial Advisory Board's (EFAB) report on "Affordable Rate Design for Households" dated February 2006. The Administrator, Stephen L. Johnson, has asked me to respond directly to you about the report's identification of household affordability as a challenge that municipalities face when addressing utility management and full cost pricing issues.

The EFAB report raised some interesting points on the significance of household affordability in providing adequate funding for water and wastewater operations. We support EFAB's conclusion that "in many cases, water and wastewater affordability is primarily a household problem...[that] can be mitigated through careful design of utility policies regarding subsidy, rates, collections, and financial assistance." We also fully support the report's conclusion that "each community analyze its own affordability problem and develop a rate policy which meets its specific needs."

The Office of Water has historically evaluated overall municipal financial resources or capability, rather than affordability for individual households, in the administration of our water and wastewater programs. This approach has left household affordability determinations to the discretion of local officials who are generally responsible for ensuring that the funds necessary to provide water and wastewater services are obtained through user rate structures, local appropriations or special fees.

EFAB's report identifies local household affordability as an issue which can often be overcome in the pursuit of full cost pricing. Local officials have a great deal of latitude when establishing user rates for drinking water and wastewater. Although Congress required recipients of Federal construction grants to proportionally distribute operational costs to all users of the wastewater treatment system, Congress did allow an exception for municipalities to provide special lower rates for low-income residential users. This water and wastewater rate setting flexibility provides local officials with the ability to address household affordability issues for various types of rate payers.

The affordability principles set forth in the EFAB report can serve as building blocks for local utilities as they examine policies regarding rate structures, collections, subsidies and financial assistance.

Consistent with EFAB's recommendations, we will be making this report available to our State partners, including the State Revolving Fund programs, and to utilities dealing with affordability issues. As we develop our FY2007 work plans, we will consider whether there would be additional value in developing a handbook for utilities, building off of EFAB's work, to further assist utilities in structuring effective affordability programs.

Thank you for EFAB's continuing contribution to EPA's National Water Program. If you have any concerns you would like to discuss, please contact me or call James Hanlon, Director of the Office of Wastewater Management, at 202/564-0748.

Sincerely,

A handwritten signature in black ink, appearing to read "B. H. Grumbles", written in a cursive style.

Benjamin H. Grumbles  
Assistant Administrator